

BANK OF ANYTOWN REPORT**OVERVIEW**

The following is a sample examination report completed using the Instructions for Compliance Report of Examination.

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ANYTOWN

BANK OF ANYTOWN
ANY COUNTY

ANYSTATE

Region: Any
Examiner in Charge:
Examination Date:

Certificate Number: 00000-0
V. R. Sharp
July 1, 19xx

SCOPE OF EXAMINATION

A review of compliance with applicable consumer protection and fair lending laws and regulations was conducted at the Bank of Anytown's main office, Anytown, Anystate, beginning July 1, 19xx. The review included an evaluation of the financial institution's Community Reinvestment Act (CRA) performance.

CONSUMER COMPLIANCE RATING

A Consumer Compliance Rating of "3" is assigned. Generally, an institution in this category is in a less than satisfactory compliance position. Refer to supporting information below.

COMMUNITY REINVESTMENT ACT RATING

A CRA rating of "Satisfactory" is assigned. Refer to supporting information below.

COMPLIANCE WITH BOARD RESOLUTION

The FDIC's previous Compliance Examination dated March 13, 19xx, identified the institution as having an unsatisfactory compliance posture. In response to the examination findings, the institution's board of directors adopted a Board Resolution on May 13, 19xx, to correct the identified weaknesses and deficiencies. The Board Resolution contained five provisions. The institution is deemed to be in partial compliance with two provisions and non-compliance with the remaining three provisions. There is no evidence that management has taken action to comply with three of the provisions.

Due to the institution's continued less than satisfactory compliance posture, the board of directors will be asked to sign a Memorandum of Understanding with the Regional Manager for the Any Region. Refer to pages 1.a.1 and 1.a.2 for a detailed discussion on the financial institution's compliance with each provision of the Board Resolution.

SIGNIFICANT EXAMINATION FINDINGS

Substantive violations of consumer protection laws and regulations were noted in several areas, including:

- € Truth in Lending reimbursable violations
- € Home Mortgage Disclosure Act requiring the collection and maintenance of the financial institution's loan application register(LAR)
- € Flood insurance regulations regarding flood hazard area determinations
- € Real Estate Settlement Procedures Act regarding the disclosure of relationships between the financial institution and the provider of settlement services
- € Truth in Savings concerning account renewal notices
- € Interest on Deposits concerning eligibility for NOW accounts

SIGNIFICANT EXAMINATION FINDINGS (continued)

Other Significant violations were noted in the areas of Truth in Lending, Fair Housing, Real Estate Settlement Procedures, Equal Credit Opportunity, Truth in Savings, Expedited Funds Availability, and Electronic Fund Transfers. Many of these violations have a material effect on a consumer's ability to obtain or shop for credit and other services. Several of these violations are system-wide. Refer to the Significant Violations beginning on page 2.1 for complete details regarding all cited violations.

REIMBURSABLE VIOLATIONS

Reimbursement must be made to consumers on numerous unsecured loans less than \$10,000 that were assessed fees for credit life and credit disability insurance as a condition of credit. A clear pattern or practice has been established where Truth in Lending disclosure statements provided to borrowers failed to accurately disclose the annual percentage rate (APR) and finance charge. Finance charges and APRs were understated in excess of the tolerance permitted by law.

Under the provisions of Section 108 of the Truth in Lending Act (TILA), the loans are subject to reimbursement and the institution must make appropriate calculated adjustments based on the greater of the understated APR or finance charge on those loans in which the understatement exceeds the permitted tolerance. Refer to pages 2.1 and 2.a.1 for additional details regarding these violations and for specific reference to applicable sections of the Truth in Lending Act and Federal Reserve Board Regulation Z, Part 226.

During the examination, the financial institution conducted a file search to determine the number of affected loans and the amount of reimbursement. Reimbursement was estimated to affect 53 loans in the total amount of \$10,725.

INACCURATE MORTGAGE LOAN DATA REPORTING

Violations of Regulation C concerning Home Mortgage Disclosure and of Part 338 of FDIC Rules and Regulations concerning Fair Housing were noted with regard to the inaccuracies on the financial institution's loan application register. These violations involve the inaccurate reporting of race, income, type of application, purpose of the application, and owner occupancy status of the dwelling for home loan applications in both 19xx and 19xx. Regulation C and Part 338 violations were also found on last year's LAR, which was submitted on March 1 of this year.

According to the provisions of Part 338 of FDIC Rules and Regulations, the LAR must be accurately updated within thirty days of action taken. Many of the current year's LAR entries were, as with the previous year, found to be inaccurate.

These violations cause concern because the financial institution's LAR and Home Mortgage Disclosure Act (HMDA) Statements are fundamental tools used by examiners and the public to assess the financial institution's CRA and fair lending performance. The board is requested to ensure that the 19xx LAR is corrected and resubmitted to the Federal Reserve Board as soon as possible. The 19xx LAR should also be corrected as soon as practical, and steps should be taken to ensure it is correctly updated within thirty days of action taken on any home loan request. Management should be aware that civil money penalties may be imposed for HMDA errors.

FLOOD INSURANCE

Part 339 of the FDIC Rules and Regulations requires a lender to determine whether, prior to the extension of credit, any improved real estate securing the proposed extension of credit is located in a flood hazard area. Violations, beginning on page 2.3 of this Compliance Report of Examination, concern a system-wide failure on the part of the institution to determine whether mobile homes used as collateral were located in a designated flood hazard area. The financial institution's failure to comply with this regulation has resulted in a civil lawsuit. The plaintiff has alleged that the institution's failure to determine and to advise him whether his mobile home was located in a flood hazard area resulted in its destruction. The financial institution failed to comply with this requirement with respect to at least five other loans secured by mobile homes.

The institution must conduct a loan file search to identify any additional borrowers whose loans were not subject to a prior determination as to their location in a flood hazard area. For any properties found to be in a flood hazard area, the financial institution must notify borrowers in accordance with flood insurance regulation requirements and ensure that borrowers purchase the minimum amount of flood insurance as required by Federal regulations.

DISCLOSURE OF RELATIONSHIP WITH LAW FIRM

Good faith estimates of closing costs, provided to mortgage loan applicants at the time of application, must include certain specified information relative to any required providers of settlement services. The financial institution requires the use of the law firm of Morton, Morton, & Gray to represent its interests at certain mortgage loan closings, and requires the borrower to pay for these services. Good faith estimates provided to five borrowers during the previous year did not include the required information detailing the financial institution's relationship with this firm. Additionally, one of the institution's directors, Mickey Morton, is a principal in the law firm.

As a result of Director Morton's relationship with both entities, the Real Estate Settlement Procedures Act (RESPA) requires the additional disclosure of the "Controlled Business Arrangement" (CBA) to applicable mortgage loan applicants. Bank of Anytown has not provided these disclosures to any mortgage loan applicants. This failure is a violation of Section 8 of RESPA and Sections 3500.7 and 3500.15 of Regulation X, RESPA's implementing regulation. Section 8 of RESPA provides for fines up to three times the amount of any fee involved, or incarceration for not more than one year, or both, for violations of the above-cited sections. Management should take immediate steps to correct the noted situation.

LACK OF ADEQUATE COMPLIANCE PROGRAM

The number, nature, and severity of violations cited herein indicate a failure by management to provide for an effective compliance program. Violations of 33 sections of law in 12 regulatory areas are cited. The violations are primarily attributed to employees' lack of familiarity with consumer protection and fair lending laws, management's failure to implement adequate monitoring controls, and the board's failure to properly supervise the compliance program. Also, Compliance Officer Smith does not have sufficient time or resources to implement an adequate compliance program.

LACK OF ADEQUATE COMPLIANCE PROGRAM (continued)

Compliance Officer Smith also serves as the institution's loan, CRA, Bank Secrecy Act, and Security Officer. Serving in all these capacities does not allow him sufficient time to properly supervise the compliance program. Assistance for Compliance Officer Smith or a redistribution of certain of his duties is recommended. As an alternative, the financial institution may consider establishing a compliance committee to oversee these programs.

Training is recommended for all staff to ensure that personnel have sufficient knowledge of the consumer protection and fair lending laws and regulations to properly perform their duties. Also, management should ensure that Compliance Officer Smith receives comprehensive ongoing training. It is critical that the designated compliance officer maintain a strong knowledge of all consumer protection and fair lending laws and regulations, and be able to provide training to applicable employees. Training weaknesses appear to be the primary cause for many of the cited violations, especially in the areas of Home Mortgage Disclosure and Fair Housing.

A system of monitoring the final products of each department, such as Truth in Lending disclosure statements, the loan application register, and periodic deposit account statements, for compliance with all applicable laws and regulations, should be implemented. The monitoring should be done by an individual other than the original preparer.

COMMUNITY REINVESTMENT

The financial institution's performance with regard to the Community Reinvestment Act (CRA) is considered "Satisfactory". Lending performance demonstrates good responsiveness to credit needs in the assessment area with a 65 percent loan-to-deposit ratio. A variety of credit products are offered and extended including residential mortgage loans, small business loans, and consumer loans. Eighty-five percent of outstanding loans are in the assessment area. Distribution of loans to businesses and individuals of different income levels is reasonable. The institution offers the "Good Loan" program to economically disadvantaged individuals for home purchase and home improvement loans. This program has been well received by Anytown residents and community response has been tremendous. As of March 31, 19xx, 154 "Good Loan" credits totaling \$6,012,345 are outstanding. On January 1, 19xx, Bank of Anytown initiated the "Revitalize Anytown" program for affordable housing targeted to low- and moderate-income individuals. These loans now total \$245,678 for 26 loans. Refer to the CRA Public Evaluation for a complete discussion of the institution's CRA performance.

MEETING WITH MANAGEMENT

FDIC Examiners V. R. Sharp and Charles M. Young met with President and Chief Executive Officer Patrick J. Rogers and Compliance Officer Anthony Smith on July 15, 19xx, to discuss the examination findings, the recommended composite ratings for compliance and CRA, and the recommended enforcement actions. Mr. Rogers was advised of the recommendation that the financial institution reimburse applicable customers for inaccurate disclosures of credit life and credit disability insurance fees. Management was reminded that certain infractions of the Home Mortgage Disclosure Act

MEETING WITH MANAGEMENT (continued)

provide for the assessment of civil money penalties for inaccurate reporting of HMDA LAR data. The Real Estate Settlement Procedures Act also provides for the assessment of fines or imprisonment, or both, for failure to provide disclosures related to controlled business arrangements.

President Rogers promised to review, correct, and resubmit the 19xx HMDA LAR within 30 days. Both officers committed to improved internal review procedures and to implement

training to address the issues cited at this examination. President Rogers deferred his commitment regarding the Truth in Lending reimbursement until the meeting with the board.

MEETING WITH THE BOARD OF DIRECTORS

FDIC Examiners V. R. Sharp and Adam Smart and Field Office Supervisor Ima Freedom met with the full board of directors on July 20, 19xx. Compliance Officer Smith also attended the meeting. Examination findings, including Truth in Lending reimbursement requirements and potential penalties for certain HMDA and RESPA infractions were summarized by Examiner Sharp. The board was informed of the examiner recommended compliance and CRA composite ratings, and enforcement action.

The directors were receptive to the examiner's recommendations and agreed to improve employee training in the areas of the compliance program noted as deficient. The directors expressed positive comments regarding the revised CRA regulation requirements and were pleased the examiners were in the bank less time than in previous compliance examinations. Director B. Z. Bode committed that the board would direct management to strengthen HMDA training to eliminate HMDA reporting infractions. Director C. Me Roar promised that reimbursement to applicable customers would commence upon receipt of instruction from the Anytown Regional Office.

Examiner (Signature)

Regional Manager (Signature)

As a result of the previous Compliance Examination, the directorate agreed to adopt a Board Resolution designed to correct the institution's unsatisfactory compliance posture. Detailed below are the provisions of the Board Resolution, as well as an assessment of the financial institution's performance with respect to each.

The Board of Directors of Bank of Anytown, Anytown, Anystate, resolve to initiate the following actions to correct certain deficiencies noted in the Compliance Report of Examination, dated March 13, 19xx, as prepared by Examiner Ken J. Prep of the Federal Deposit Insurance Corporation.

1. Appoint a Compliance Officer to oversee and coordinate the financial institution's overall compliance efforts. The Compliance Officer shall be responsible for training and supervising all affected personnel in compliance related matters and shall be given necessary authority to implement appropriate compliance procedures. The Compliance Officer shall also be given sufficient time and resources to carry out his duties.

Shortly after the previous Compliance Examination, the board of directors voted to appoint Assistant Vice President Anthony Smith as the institution's Compliance Officer, as well as CRA, Bank Secrecy, and Security Officer. While the financial institution has met the initial requirement of the above provision by appointing Vice President Smith Compliance Officer, management has done little else to comply with the remaining conditions of this provision.

While Mr. Smith holds the official title of Compliance Officer, he exercises minimal oversight of the institution's compliance activities. He has conducted no training of personnel, and may not have sufficient authority to correct problem areas when they are identified, as indicated by the serious violations of RESPA cited in this report. Mr. Smith clearly has insufficient time to accomplish his duties. His responsibilities as a full time lender and the CRA, Bank Secrecy, and Security Officer, provide him little time to concentrate on any single area, with the result that all areas have suffered.

2. Ensure that the Compliance Officer receives necessary training as soon as possible after assuming his or her duties.

Compliance Officer Smith requested and was approved on two occasions to attend the ABA Compliance School in Norman, Oklahoma, but was subsequently prevented from attending because of the demands of the multiple positions he fills. Mr. Smith maintains the institution's copy of the FDIC Laws, Rules, and Related Acts, where all compliance related regulations are contained, but has had little time to research compliance related questions and issues because of his job demands. The financial institution is clearly not in compliance with the above provision.

3. Adopt a written compliance program that includes appropriate internal controls and training of personnel in all bank functions related to compliance.

This task was assigned to Compliance Officer Smith shortly after his appointment as Compliance Officer. However, because of his numerous other responsibilities, Mr. Smith has only produced a few rough draft pages of such a program. The financial institution is not in compliance with the above provision.

4. Institute a review procedure whereby loan disclosure statements and adverse action notices are reviewed by a knowledgeable individual, other than the preparer, prior to issuance.

The financial institution has taken no actions to comply with the above provision.

5. Direct management to correct all violations listed in the Compliance Report of Examination dated March 13, 19xx, and institute appropriate procedures to prevent their recurrence.

The financial institution corrected all but one violation from the previous examination. During the current examination, five ineligible for-profit entities were found to be holding NOW accounts in violation of Part 329 of FDIC Rules and Regulations. One of these entities was identified as ineligible during the previous examination. Although it has made significant efforts, the financial institution is not in full compliance with the above provision.

Due to the institution's continued less than satisfactory compliance posture, the board of directors will be asked to sign a Memorandum of Understanding with the Regional Manager for the Any Region.

SIGNIFICANT VIOLATIONS

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The Significant Violations Page includes those violations that are recurrent, system-wide, willful or especially serious. Individually or collectively these violations represent concern and require immediate corrective action by the financial institution.

SUBSTANTIVE VIOLATIONS

A critical violation, act, or omission that interferes with the fundamental purpose of the relevant law or regulation in relation to the institution.

TRUTH IN LENDING - Closed-End Credit

Fifty-six consumer loan files were reviewed to determine compliance with all applicable lending related laws and regulations. The sample included 12 home purchase loans, 12 home refinance loans, seven home improvement loans, and 25 non-real estate related consumer loans. Compliance Officer Smith reports that some of the home improvement loans were probably coded as personal loans on the financial institution's loan trial balance.

REIMBURSABLE VIOLATIONS

Section 226.18(e) of Regulation Z requires that the annual percentage rate be accurately disclosed, as defined in Section 226.22(a). [083502]

Section 226.18(d) of Regulation Z requires inclusion of charges or premiums for credit, life, accident, health or loss of income insurance in finance charge disclosure, if the conditions as described in section 226.4(d)(1) are not met. [082703]

Section 108(e)(1) of the Truth in Lending Act requires the FDIC to order creditors to make monetary adjustments to the accounts of consumers in cases where the annual percentage rate has been understated by more than the allowed tolerance. [099001]

The Consumer Loan Policy indicates that, for any extension of unsecured credit under \$10,000.00, the borrower must purchase credit life and credit disability insurance. A review of the Truth in Lending disclosure statements for eight consumer loans under \$10,000 indicates that these requirements were not disclosed as a condition of credit and the consumer did not authorize the charges.

A review of loan documentation did not reveal any independent authorization by the borrower for the purchase of the insurance. Therefore, the inclusion of the insurance fees in the amount financed is deemed to be a violation and reimbursable under the Truth in Lending Act. The understatements exceeded the accuracy tolerance allowed by the Truth in Lending Act and Regulation Z for purposes of reimbursement. Of the eight loans reviewed, eight were found to have reimbursable violations, therefore, the omission of these charges in calculating the finance charge is considered a pattern. Management estimates that approximately 200 unsecured loans were granted over the past two year.

The financial institution must make reimbursement based upon the greater of (1) the difference between the actual and understated annual percentage rate or (2) the difference between the actual and understated finance charge. The financial institution must conduct a complete file search to identify all affected loans. The file search should consist of all unsecured consumer loans less than \$10,000 that were originated since the last examination or since the institution began charging the fee, whichever is later. Reimbursement will not be required for paid loans if the violation occurred in a transaction consummated more than two years prior to the date of the current examination. Refer to page 2.a.1 for information concerning the APR and reimbursement calculations.

President Rogers and Compliance Officer Smith stated they were not aware that the Truth in Lending disclosure form did not provide the required notice concerning mandatory credit life and credit disability insurance. The institution has created a separate document making the required disclosure and providing it to the borrowers for their review and signature.

HOME MORTGAGE DISCLOSURE

Section 203.4(a) of Regulation C requires a nonexempt bank to collect certain data on applications for, and originations, purchases and refinancings of, home purchase and home improvement loans for each calendar year. These transactions shall be recorded on a register in the format prescribed in Appendix A. The data must include the following items:

- (1) A number for the loan or loan application, and the date the application was received.
- (2) The type and purpose of the loans (including multifamily dwellings).
- (3) The owner-occupancy status of the property to which the loan relates.
- (4) The amount of the loan or application.
- (5) The type of action taken, and the date.
- (6) The location of the property to which the loan relates, by MSA, state, county, and census tract, if the institution has a home or a branch office in that MSA.
- (7) The race or national origin and sex of the applicant or borrower, and the gross annual income relied upon in processing the application.
- (8) The type of entity purchasing a loan that the institution originates or purchases and then sells within the same calendar year. [370102]

The financial institution entered a total of 63 loans on its Loan Application Register (LAR) for calendar year 19xx. A comparison of 25 LAR lines with the underlying loan files revealed that the LAR contained many inaccuracies and several omissions.

Of the 25 LAR lines reviewed, 52 data elements were inaccurately recorded for a total data error rate of 10.95% [52/(25 x 19 possible data errors)]. Inaccurately recorded data elements included: applicant's race, income, the type of application, the purpose of the application, and the owner-occupancy status of the dwelling.

The review also found numerous errors in two key loan LAR data columns. In 17 of 25 LAR lines reviewed, race for applicants or co-applicants was incorrectly recorded as American Indian. The actual applications for these 17 lines identified the race of 15 applicants/co-applicants as white. The remaining two applicants/co-applicants, the applicants did not provide their race. The data column error rate for race is 68%. In nine of the 25 LAR lines reviewed, the applicant income reported was the applicant's gross annual income, as required, but the amount entered was not to thousands. The income column error rate is 36% (9/25). The total key column error rate for this sampling is 20.8% [(17 + 9)/(5 key data columns x 25)]. HMDA errors of this magnitude may result in the imposition of civil money penalties.

A review of 31 HMDA reportable loans originated by the financial institution revealed two instances where the institution failed to include the loans on the LAR. A review of denied loan files showed that one HMDA reportable loan was omitted from the LAR.

In 19xx, the responsibility for completing the LAR on a monthly basis was assigned to the loan department's secretarial staff. These individuals were not provided any training on the purpose of the LAR and were given only limited guidance on how to properly record loan data. In addition, the lending staff did not always collect or record the required data.

Beginning in calendar year 19xx, the responsibility for entering data on the LAR was assigned to Compliance Officer Smith. Of the 31 applications recorded on the current year's LAR, only five isolated errors were noted. While the administrative change appears to have largely corrected the inaccurate recording of data on the LAR, periodic training and audits will help to ensure compliance with this regulation and avoid the imposition of civil money penalties.

SIGNIFICANT VIOLATIONS (Continued)

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HOME MORTGAGE DISCLOSURE (Continued)

This violation was discussed with President Rogers and Compliance Officer Smith. Both officers expressed dismay at the rate of errors and promised immediate correction. The revised LAR should be sent to the Regional Office to ensure proper reporting.

FLOOD INSURANCE

Section 339.3 of FDIC regulations prohibits a bank from making, increasing, extending, or renewing a loan secured by improved real estate or a mobile home located in a designated flood hazard area of a community which is participating in the National Flood Insurance Program when the underlying security is not covered by flood insurance. [150101]

The financial institution originated a \$32,000 loan secured by a mobile home to Mr. Maxwell Davis on 02-10-xx. The financial institution failed to determine if the mobile home was located in a flood hazard area at, or prior to, the time the loan was originated. As a result, the financial institution failed to properly notify Mr. Davis that his mobile home was in a flood hazard zone and require that he obtain flood insurance as a condition of the loan. The subject property subsequently suffered severe damage as a result of regional flooding. According to flood maps maintained by the financial institution, the property is located in a designated flood hazard area.

Assistant Vice President Moore stated that the mobile home is in a trailer park and since the loan involved no real estate, he incorrectly believed that the flood insurance requirements did not apply. Mr. Davis has filed a law suit against the financial institution to recover his losses.

Section 339.5 of FDIC regulations requires the bank to maintain sufficient records to indicate the method used by the bank to determine, for all extensions of credit secured by improved real estate or a mobile home, whether the properties are located in a designated flood hazard area. [150301]

These record keeping requirements are clarified in a Financial Institution Letter dated January 26, 1990 (FIL-9-90) and in Financial Institution Letter dated April 30, 1990 (FIL-29-90).

If a mobile home securing a loan is located in a trailer park, the financial institution does not determine whether the mobile home is located in a flood hazard area. Five of the 31 loans reviewed were secured by a mobile home located in a trailer park. An additional two loans were secured by a mobile home as well as the underlying real estate. Both of these properties were reviewed and found to be outside of any identified flood hazard area. Examples of cited violations are listed below:

<u>Name</u>	<u>Date</u>	<u>Amount</u>
Prancy, Tom	01-07-xx	3,000
Loveletter, John	01-23-xx	4,800
Clark, Kent	07-09-xx	10,200

The failure to determine whether a mobile home is located in a flood hazard area if the loan is secured solely by the home itself, without the underlying or surrounding real estate, is considered a system-wide violation. The financial institution must perform a

file search to identify all loans secured by a mobile home without any associated real estate and determine whether the mobile home is located in a flood hazard area. Additionally, the financial institution must properly notify all affected borrowers of its determination as required by under Section 339.6 of FDIC Rules and Regulations.

President Rogers stated that flood maps will be used for all loans secured by mobile homes and that appropriate documentation will be maintained in the appropriate files.

SIGNIFICANT VIOLATIONS (Continued)

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REAL ESTATE SETTLEMENT PROCEDURES

Section 3500.7(e) of Regulation X of the Department of Housing and Urban Development requires the lender to describe the nature of any relationship between each provider and the lender. [131801]

Section 3500.15(b)(1) of Regulation X of the Department of Housing and Urban Development states that a controlled business arrangement is not a violation of section 8 of RESPA and of section 3500.14 if the conditions set forth in this section are satisfied. The person making each referral has provided to each person whose business is referred a written disclosure, in the format of the Controlled Business Arrangement Disclosure Statement set forth in appendix D. The disclosures must be provided on a separate piece of paper no later than the time of each referral or, if the lender requires use of a particular provider, the time of loan application except for the prescribed exemptions. [134201]

The financial institution requires that customers use the law firm of Morton, Morton & Gray for settlement on all primary purchase loans over \$100,000. Director Morton is a principal of this law firm and serves as the institution's attorney. Director Morton has conducted all of the institution's real estate mortgage settlements over \$100,000 in the past year. Five of twelve primary residence purchase loans reviewed exceeded \$100,000.

All five applicants were required to use Director Morton as their attorney at settlement and did not receive good faith estimate disclosures that included information on Director Morton's relationships with the financial institution. Below are the names of three of the five applicants who did not receive proper RESPA disclosures:

<u>Name</u>	<u>Note #</u>	<u>Date</u>	<u>Amount</u>	<u>Loan Type</u>
Brady, Bob and Billy	356998	04-05-xx	105,000	Purchase
Johnson, Eugene and Mary	376424	10-11-xx	200,000	Purchase
Reed, Austin and Carrie	409261	10-23-xx	178,000	Purchase

Compliance Officer Smith stated that the required RESPA information was not provided on the good faith estimate at the request of Director Morton. Director Morton was advised of the violations and stated he did not realize the omission of this information was a violation of law.

Management is reminded that RESPA provides for penalties for certain infractions including failure to provide required disclosures regarding controlled business arrangements. These penalties allow for the assessment of civil money penalties or imprisonment, or both.

Although the amount of the fee imposed on borrowers for Attorney Morton's services appears consistent with market rates, this situation could be construed as a violation of Section 8 of RESPA regarding kickbacks and unearned fees. Violations of this nature may result in the imposition of civil money penalties on the institution and/or the settlement service provider. Both Director Morton and Compliance Officer Smith stated the required provider disclosures would be supplied on future good faith estimates.

TRUTH IN SAVINGS

Section 230.5(b)(1) of Regulation DD requires that, if maturity of a time account is longer than a month and automatically renewable, a notice must be mailed or delivered at least 30 calendar days before maturity or 20 calendar days before the end of a grace period (if it allows at least five calendar days of grace). If maturity is longer than one year, the disclosures under 230.4(b) and the date the account matures must be provided. If the interest rate and annual percentage yield for the new account are unknown, the notice must state the date these will be determined and a telephone number to obtain this information. [165501]

The financial institution offers automatically renewable certificates of deposit. According to the deposit trial balance, the financial institution had a total of 158 such accounts as of the examination date. Although the financial institution's computer system

SIGNIFICANT VIOLATIONS (Continued)

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TRUTH IN SAVINGS (continued)

has the capability of identifying accounts subject to renewal in advance and can automatically generate the appropriate disclosure notices, the financial institution has failed to implement this procedure. Such notices have not been provided to customers since the effective date of the Truth in Savings Act (June 1993). This deficiency is considered system-wide.

This violation occurred due to the institution's unfamiliarity with prior maturity notice requirements and its failure to understand the full capacity of the financial institution's deposit software program. Compliance Officer Smith stated that certificates of deposit subject to automatic renewal will be identified 38 days in advance and the necessary maturity notice mailed.

INTEREST ON DEPOSITS

Section 329.1(b)(3) of FDIC regulations prohibits the maintenance of NOW accounts by certain for-profit corporations, partnerships, or associations. [220101]

An initial review of the interest-bearing deposit account trial balance revealed 15 NOW accounts maintained by for-profit business corporations or partnerships. Further review of deposit account agreements and signature cards identified five of the 15 accounts as belonging to ineligible for-profit entities in violation of the above section.

This violation type was cited at the previous examination. Four exceptions to this rule were previously identified in the last examination. Downtown Auto Inc., one of previously cited exceptions, was again identified as holding a NOW account in violation of Section 329.1(b)(3). Entities identified as ineligible to maintain NOW accounts during the current examination are listed below.

<u>Name</u>	<u>Account Number</u>	<u>Date Account Opened</u>
Bright Realty, Inc.	6666673512	05-05-xx
CPP Associates	6250064312	not readable
Downtown Auto, Inc.	8100653912	08-26-xx
Land Corporation	0109729612	01-30-xx
Furniture Co., Inc.	1835053106	06-22-xx

President Davis indicated that corrective measures for this deficiency were overlooked subsequent to the last examination. To avoid future violations, the financial institution should regularly review signature cards for NOW accounts to ensure they are properly completed and that all NOW account holders are eligible to maintain such accounts.

Compliance Officer Smith promised to review all NOW account signature cards and to make necessary corrections.

OTHER SIGNIFICANT VIOLATIONS

A violation, act, or omission, though not substantive, that interferes with the fundamental purpose of the relevant law or regulation in relation to the institution.

TRUTH IN LENDING - Closed-End Credit

NON-REIMBURSABLE VIOLATIONS

Section 226.19(a)(1) of Regulation Z requires, in a residential mortgage transaction subject to RESPA, that the bank make good faith estimates of the disclosures required by Section 226.18 before consummation, or deliver or mail them not later than three business days after receipt of a consumer's application, whichever is earlier. [087101]

In three of the 12 home purchase loans reviewed, the good faith estimates of the disclosures required by Section 226.18 were not provided to the consumer within three business days after the receipt of the consumer's application. Failure to provide these forms in accordance with Section 3500.7(a) of Regulation X are discussed as apparent violations under the heading Real Estate Settlement Procedures on page 2.9. The forms with good faith estimates of the required Truth in Lending disclosures were not provided timely in the following transactions:

<u>Name</u>	<u>Loan #</u>	<u>Application Date</u>	<u>Date Disclosure Mailed</u>
Carter, A. K.	76965	05-11-xx	05-19-xx
Caldwell, D.	43926	08-18-xx	08-25-xx
Kincaid, J. R.	58423	09-09-xx	09-19-xx

Management responded that the violations occurred as a result of a new loan officer working with home purchase loans on a part-time basis and without the benefit of adequate training. Assistant Vice President Moore stated that this mistake may have affected approximately 50 applicants during the current year. She indicated that further training will be provided.

Section 226.18(f)(1) of Regulation Z requires the following disclosures for variable rate transactions not secured by a consumer's principal dwelling or secured by a principal dwelling with a term of one year or less: (1) circumstances under which the rate may increase, (2) any limitations on the increase, (3) the effect of an increase, and (4) an example of payment terms that could result from an increase. [083901]

The review of 25 loans that were not real estate related included six which contained a variable rate feature. Truth in Lending disclosure statements for these loans indicated that the interest rate is based upon an index plus margin which is subject to increase, and that the index is based upon internally defined bank prime. Since the bank is using an internally defined prime, the apparent violation lies in the institution's failure to provide a brief description of the index or a statement that any increase is at the sole discretion of the creditor. See Section 226.18(f)(1) of the Official Commentary to Regulation Z.

The following are examples of such violations.

<u>Name</u>	<u>Date</u>	<u>Amount</u>
Wave, Dean	06-20-xx	3,500
DeLessio, Tim	07-03-xx	12,998
Roberts, Velma	01-17-xx	10,010

The violation was caused by an insufficient review of the disclosure forms when the forms were created. This is considered a system-wide violation for all variable rate consumer loans. Assistant Vice President Moore estimated that 50 such loans have been originated since the financial institution began offering this type loan in June 19xx.

Compliance Officer Smith indicated that a proper description of the institution's index and a statement that rate increases are at the sole discretion of the institution will be included on the disclosure forms.

TRUTH IN LENDING - CLOSED-END CREDIT - NON-REIMBURSABLE (continued)

Section 226.18(k)(1) of Regulation Z requires, when an obligation includes a finance charge computed from time to time on the unpaid principal balance, that the creditor indicate whether or not a penalty may be imposed if the obligation is prepaid in full. [085301]

A review of a sample of 25 consumer loans not secured by real estate revealed a deficient disclosure relative to the required prepayment clause. The disclosure form fails to include the required prepayment clause, which relates to whether or not the borrower may have to pay a penalty in case of prepayment.

Compliance Officer Smith stated that the forms were purchased from an outside vendor and the absence of this required information was not discovered during any internal audit. He has informed the vendor of the omission and corrected forms will be provided promptly.

Open-End Credit

Section 226.6(a)(1) of Regulation Z requires the creditor to explain on the initial disclosure statement the circumstances under which a finance charge will be imposed, including the time period, if any, during which payment may be made without incurring a finance charge. [062501]

Section 226.6(a)(2) of Regulation Z requires an explanation on the initial disclosure statement of each periodic rate used to compute the finance charge, the range of balances to which it is applicable, and the corresponding annual percentage rate. When different rates apply to different types of transactions, the creditor is required to explain which rates apply to which transactions. [062701]

The initial disclosure statement for the overdraft protection plan fails to explain the circumstances under which a finance charge will be imposed and also fails to state the periodic rate used to compute the finance charge. The omission of this information violates the above section.

In May 19xx, the financial institution began offering overdraft protection lines of credit. As of the examination date, 33 lines of credit had been approved, although no draws had been made.

Compliance Officer Smith responded that the disclosure forms were purchased from an outside vendor. During the examination, the vendor agreed to correct the disclosure form and furnish the financial institution with a new supply.

Section 226.9(a) of Regulation Z requires the creditor to mail or deliver the required billing rights statement at least once per calendar year (at intervals of not less than six months nor more than 18 months), either to all consumers or to each consumer entitled to receive a periodic statement for any one billing cycle. If a short-form billing rights statement is used in lieu of the annual statement, the creditor is required to mail or deliver the short-form statement on or with each periodic statement. [069101]

The financial institution failed to mail or deliver the required billing rights statements for the overdraft protection plan on a timely basis.

A home equity product was added to the financial institution's offerings two years ago (7/19xx). Twenty open-end home equity lines have been approved to date.

Management responded that they were not aware of this timing requirement and would mail out the annual billing rights statements promptly.

TRUTH IN LENDING - Open-End Credit (continued)

Section 226.16(d)(1) of Regulation Z requires that, if the finance charge or other charges or payment terms are stated in an advertisement for a home equity plan, the advertisement must clearly and conspicuously set forth the following: any loan fee that is a percentage of the credit limit, an estimate of any other fees for opening the plan, the annual percentage rate(s), and the maximum annual percentage rate that may be imposed by the plan. [078601]

Section 226.16(d)(3) of Regulation Z (Home Equity Plan) requires that, if an advertisement contains a statement about a minimum periodic payment, it shall also state that a balloon payment may result. [078801]

The promotional materials (posters and brochures) advertising the institution's home equity loan program are in apparent violation of both sections of Regulation Z cited above. The advertisement states "You pay interest only monthly and principal whenever you like" with no reference to the possibility of a balloon payment of the entire outstanding principal and interest at some date in the future. The advertisements also state "You pay a rate as low as 1+1/2% over prime." As indicated above, Regulation Z requires that if a finance charge is included, it must be stated in terms of an annual percentage rate.

Compliance Officer Smith responded that the home equity brochures and related posters referenced above were sent for printing before he had an opportunity to review them. Mr. Smith stated that procedures will be strengthened to assure a compliance review of all new advertisements before they are printed or sent to a newspaper for publishing.

FAIR HOUSING

Section 338.8(c) of FDIC regulations requires a bank to enter the required information on the register within 30 calendar days after the application is finally disposed of (that is, application is denied or withdrawn, or loan goes to closing). [358701]

A review of 12 home loan applications denied in the current calendar year revealed that three applications were not entered on the current year LAR within 30 calendar days. The financial institution has denied approximately 140 loans year-to-date.

<u>Name</u>	<u>Note</u>	<u>Date</u>	<u>Amount</u>	<u>Loan Type</u>
Jiles, Milton and Rosa	Denied	10-21-xx	5,000	Home Improvement
Lee, Rick and Janet	Denied	11-09-xx	70,000	Purchase
Delso, Pam	Denied	09-17-xx	90,000	Purchase

Compliance Officer Smith stated he did not know why these denials were not entered on the register within 30 days. No specific reason was identified as a cause of the errors. However, the failure to record data in a timely manner combined with the magnitude of inaccuracies in the 19xx calendar year LAR (see HMDA violations, page 2.2) is a cause for concern. The financial institution should implement a review or verification process to ensure that all data is accurately recorded on the LAR within the required time frame.

Compliance Officer Smith stated that since taking over responsibility for entering the LAR data, he has not had time to develop an auditing system. He promised that review procedures would be implemented immediately.

REAL ESTATE SETTLEMENT PROCEDURES

Section 3500.7(a) of Regulation X of the Department of Housing and Urban Development requires the lender to provide the good faith estimate to all applicants by delivery or mail not later than three business days after the application is received or prepared. (If a mortgage broker is the exclusive agent of the lender, either shall provide the good faith estimate.) [130301]

The financial institution utilizes combination forms that include both good faith estimates of Truth in Lending disclosures and good faith estimates of settlement costs for purposes of RESPA. Violations for failure to provide these required disclosures in accordance with Section 226.19(a)(1) of Regulation Z are cited under the heading Truth in Lending on page 2.6. The home purchase loan examples previously cited in violation of Section 226.19(a)(1) of Regulation Z are also in violation of Section 3500.7(a) of Regulation X, RESPA's implementing regulation.

Of the seven home improvement loans reviewed, the following applicants were not provided the good faith estimate of settlement costs within the required three business days of application.

<u>Name</u>	<u>Note #</u>	<u>Date</u>	<u>Amount</u>	<u>Loan Type</u>
Adler, Kirk and Julie	345897	02-13-xx	5,000	Home Improvement
Bricker, Kevin and Sandy	666000	08-24-xx	66,600	Home Improvement
Nelson, Mike and Tami	427133	05-10-xx	10,000	Home Improvement

Compliance Officer Smith attributed this error to a misunderstanding as to whether home improvement loans were subject to RESPA. As a result, the financial institution has not reviewed home improvement loans for compliance with RESPA. Mr. Smith indicated that procedures would be implemented to ensure that the required good faith estimates are provided within three business days. He also stated that he would develop and implement RESPA compliance review procedures that will include home improvement loans.

Sections 3500.21(b) and 21(d) of Regulation X of the Department of Housing and Urban Development requires the lender to deliver the disclosure statement relating to mortgage servicing to applicant(s) for federally-related mortgage loans and for refinancings of mortgage loans subject to RESPA at the time of application or, if the application is not completed in person, to mail the disclosure by first-class postage within 3-business days of receipt. [144201]

The financial institution did not deliver the mortgage servicing disclosure statement at the time of application in 14 of 31 originated real estate loans and in eight of 17 denied home loan applications reviewed. The 22 applications were submitted in person yet the applicants received the disclosure at a later date. The following is a representative sample.

<u>Name</u>	<u>Note #</u>	<u>Date</u>	<u>Amount</u>	<u>Loan Type</u>
Garner, James and Wendy	049185	07-02-xx	26,675	Home Improvement
Starker, Ed and Lavern	Denied	03-30-xx	40,000	Purchase
Wilson, Gerald and Mary	058422	01-03-xx	33,133	Refinance

Management was not aware that mortgage servicing disclosure statements were required to be provided at application if a face-to-face interview was conducted. This is considered a system-wide violation for all applications completed in person.

Compliance Officer Smith stated he would immediately advise all appropriate personnel that the mortgage servicing disclosure statements must be given at the time of application if the mortgage application is completed in person.

EQUAL CREDIT OPPORTUNITY

Section 202.9(a)(2) of Regulation B requires a creditor to provide an applicant, against whom adverse action is taken, a written notice of such action that includes a statement of specific reasons for adverse action or a disclosure of the applicant's right to request a statement of specific reasons within 60 days. [337401]

A review of 40 adverse action notices for all types of credit offered by the institution showed a consistent disclosure of only one principal reason for the adverse action, regardless of the presence of other significant contributing factors. A review of the documentation found in the denied loan files and interviews with loan officers revealed that applicants were not informed of all the principal reasons for denial when more than one principal reason caused the denial. This is considered a system-wide violation for all applications resulting in adverse action. Examples of such denials with respect to home purchase loans are listed below.

<u>Name</u>	<u>Application Date</u>	<u>Disclosed Reason</u>	<u>Other Principal Factors</u>
Casey, Rick	05-04-xx	Credit history	Length of residence; Lack of deposit relationship
Wright, Diane	09-17-xx	Credit history	Insufficient collateral; Debt-to-income ratio
Knight, D.and K.	12-12-xx	Mortgage insurance	Unverifiable information denied

This violation was discussed with Assistant Vice President Moore. He indicated that he believed the financial institution to be in compliance with the requirements of ECOA, but that they would discuss this matter with the financial institution's attorney.

President Rogers promised the financial institution would revise its procedures for completion of the Notice of Adverse Action so that applicants would be provided with all principal reasons for the adverse action.

TRUTH IN SAVINGS

Section 230.8(c) of Regulation DD requires that, with certain exceptions, if the annual percentage yield is stated, the following information to the extent applicable must be stated:

- | | |
|-----|---|
| (1) | Variable rates |
| (2) | Time annual percentage yield is offered |
| (3) | Minimum balance required |
| (4) | Minimum opening deposit required |
| (5) | Statement on effect of fees |
| (6) | Features of time accounts (time requirements and any early withdrawal penalties) [171001] |

During the months of June and July 19xx, the financial institution advertised the availability of six-month certificates of deposit with an annual percentage yield of 6.50 percent. The institution's advertising file indicated that such advertisements were placed weekly in three different newspapers.

Although these advertisements disclosed the annual percentage yield, they failed to identify an effective date for the annual percentage yield, the minimum balance required to obtain the stated yield, and whether early withdrawal penalties would be imposed. The failure to include this required information is considered to be a system-wide violation.

The financial institution does not regularly advertise deposit accounts with annual percentage rates and the advertisement discussed above was the only one of this type found in the advertising file. Compliance Officer Smith agreed that additional information

should have been included and promised to implement appropriate review procedures.

EXPEDITED FUNDS AVAILABILITY

Section 229.10(c)(1)(vii) of Regulation CC generally requires that the lesser of \$100 or the customer's daily aggregate deposits of checks not subject to the next-day availability rules are made available on the next business day. [500701]

The financial institution's general funds availability policy is to make deposited funds available for withdrawal as of the next business day. However, deposited funds can be delayed longer on both a case-by-case basis and an exception hold basis. The financial institution has generated 13 case-by-case and eight exception hold notices since the last examination.

The 13 case-by-case hold notices provided to depositors did not indicate that depositors were receiving \$100 or the aggregate amount deposited to all accounts on the next business day, whichever is less. This is a system-wide violation. Examples are listed below.

<u>Name</u>	<u>Date</u>	<u>Amount Deposited</u>	<u>Amount Held</u>
Noall, Stacy	02-08-xx	1,100	1,100
Cyclone, Anthony J.	10-02-xx	576	576
X & X Realty	09-04-xx	5,401	5,401

Section 229.13(g) of Regulation CC provides that, when invoking an exception hold for an account other than a new account, the financial institution must provide the customer with a notice containing certain information within prescribed time periods. (A one-time exception notice or notice of repeated overdrafts exception may be used for certain exceptions.) [502901]

Section 229.16 of Regulation CC requires that the written notice (containing certain information) on holds (case-by-case delays) be provided to the depositor at the time of deposit unless the deposit is not made in person to an employee of the bank or the decision to extend the time of availability is made after the time of deposit. If the notice is not given at the time of deposit, it must be mailed or delivered to the customer not later than the first business day following the day of deposit. [503702]

The Notice of Delayed Availability provided to deposit customers did not disclose the number of days that the subject deposit was to be held. This is a system-wide violation. Examples are listed below.

<u>Name</u>	<u>Date</u>	<u>Amount Deposited</u>	<u>Type</u>
Jones, Clinton	04-01-xx	823	Exception hold
Bemco Inc.	02-11-xx	425	Exception hold
Good, Peter B.	02-11-xx	1,590	Exception hold
Ellis, Ernest and Mary	02-08-xx	1,100	Case-by-case

The violations are attributed to a misunderstanding of the \$100 next-day availability rule and a lack of knowledge concerning the disclosure requirements for delayed availability notices. Compliance Officer Smith indicated that training on the availability of deposits and the proper completion of hold notices will be conducted.

ELECTRONIC FUND TRANSFERS

Section 205.11(c) of Regulation E requires a financial institution to promptly investigate and determine whether an error occurred and transmit the results of the investigation and determination to the consumer within 10 business days (20 business days for foreign-initiated and debit card transactions) after receiving notice of an error.

(Alternatively, provided the financial institution has complied with the conditions specified therein regarding the provisional recrediting of the amount of the alleged error, it may investigate and determine within 45 business days all point-of-sale (90 days for foreign-initiated transfers and all point-of-sale debit card transactions) whether an error occurred and transmit the results of the investigation and determination to the consumer.) [288601]

Since the last examination, the financial institution received notification of six errors, all involving an alleged unauthorized transaction with an ATM debit card. The financial institution's general practice is to recredit the consumer's account in the amount of the alleged error, less \$50, within ten days of receiving the notice of error, and to then advise the customer in writing of this action. However, in four of the six investigations, the financial institution failed to provide the provisional credit and notification to the consumer within ten days. The four exceptions are listed below:

<u>Name</u>	<u>Date of Consumer's Error Notice</u>	<u>Acknowledgment Notice Date</u>
Lister, Joyce	02-05-xx	03-15-xx
Paymore, Jackie	10-12-xx	12-06-xx
Gun, Michael	04-08-xx	04-05-xx
Dudley, Kenneth J.	01-18-xx	03-02-xx

Compliance Officer Smith could not provide a reason for the delay in recrediting and providing acknowledgments in the above cases. He promised that Section 205.11(c)(2) will be closely followed in the future with respect to the investigation of unauthorized debit card transactions.

The financial institution's review of videotapes from cameras at ATMs where alleged unauthorized transactions were reported found that all transactions were made directly by the customer or a family member and that no errors occurred.

Required Data :

Borrower's Name	Bullet	Silver	Howard
Loan Number	048084	047411	048137
1.Loan Type	Installment	Installment	Installment
2.Origination Date	3-26-xx	5-11-xx	4-5-xx
3.Loan Amount	8,029	5,000	5,348.15
4.Prepaid Finance Charge			
5.Amount Financed	8,029	5,000	5,348.15
6.Explanation of adjustment to Amount Financed (if applicable)	Consumer failed to indicate approval of purchase of credit life or credit disability insurance.		
7.Payment Schedule:	48 @ 206.16	24 @ 234.27	48 @ 146.51
8.Days to the First Payment	30	30	44
9.Disclosed APR	8.989	6.507	9.015
10.Calculated APR	10.652	11.529	13.843
11.Explanation of APR Understatement	Failed to include fees for credit life and credit disability insurance in the amount financed.		
12.Lump Sum Reimbursement as of Final Payment Date	314.78	280.73	709.37
13.Lump Sum Reimbursement:			
(a) As of Payment #	8	6	5
(b) Amount	231.62	253.75	509.61
14.Lump Sum Pmt Reduction:			
(a)As of Payment #	8	6	5
(b)Lump Sum Portion	44.76	66.68	62.28
(c)Reduced Pmt Amount	200.71	223.31	134.24
(d)# of Reduced Pmts	40	18	43
(e)Odd Pmt Amt (if any)			
(f)# of Odd Pmts			
15.Disclosed Finance Charge	1,609.39	363.85	1,167.20
16.Calculated Finance Charge	1,866.68	622.48	1,684.33
17.Fin. Charge Adjustment	210.75	258.63	484.18
18.Explanation of Finance Charge Understatement	Refer to Line 11 above.		
Note: The larger of the Finance Charge Adjustment or Lump Sum Reimbursement will be the basis for making any reimbursement when both are found to be understated.			

**** The APR Program Documentation is included for illustrative purposes.****
This printout is not intended to be a report page.

** APR PROGRAM DOCUMENTATION **

Prepared By: V.R. Sharp
Date: July 5, 19xx
Borrower's Name: Bullet
Account Number: 048084
Name of Lender: Bank of Anytown
Original Creditor: Bank of Anytown

.....

LOAN INFORMATION - ORIGINAL INPUT

Amount Financed	=	8,029.00
Disclosed (Estimated) APR	=	8.9890
Disclosed Finance Charge	=	1,609.39
Payment Frequency	=	Monthly (Installment)

.....

DISCLOSURE INFORMATION - OUTPUT

Amount Financed	=	8,029.00
FINANCE CHARGE	=	1,866.68
Total of Payments	=	9,895.68
Present Value of Payments (using 9.500%)	=	8,286.23
ANNUAL PERCENTAGE RATE	=	10.6521

.....

** VIOLATION ** The APR is understated by: 1.6631%
** VIOLATION ** The FINANCE CHARGE is understated by: 257.29

.....

Note: The repayment schedule appears on the next page.

*** TRUTH IN LENDING REIMBURSEMENT DOCUMENTATION ***

ADJUSTED APR	PRORATE FACTOR	APR ADJUSTMENT AS OF FINAL PMT DATE
-----	-----	-----
9.239 %	0.9735856717	-314.78

PMT STREAM NO.	ORIG. PMT	ADJUSTED PMT	NO. OF PMTS	PDS - DAYS
-----	-----	-----	-----	-----
1	206.16	200.71	48	1 0

LUMP SUM / PAYMENT REDUCTION METHOD: - 44.76
(This adjustment covers payment(s) 1 through 3)

LUMP SUM METHOD (With no future reductions): - 231.62
(This adjustment covers payments 1 through 24)

FINANCE CHARGE ADJUSTMENT (using 10.091 % APR): - 210.75

*** NOTE ***

When both an APR and Finance Charge Adjustment appear:

Compare the life of the loan APR adjustment to the life of the loan Finance Charge adjustment. Reimbursement is applicable only to whichever one reflects a larger reimbursement amount.

For fixed-rate loans, the life of the loan APR adjustment is the APR ADJUSTMENT AS OF THE FINAL PAYMENT DATE. For variable rate loans, the life of loan APR adjustment is the adjustment as of the end of the first rate change period (i.e., the lump sum value from the LUMP SUM / PAYMENT REDUCTION METHOD).

Once the adjustment is identified, it may be calculated by using either the Lump Sum or Lump Sum/Payment Reduction adjustment method.

To determine the "payment reduction" amount for finance charge adjustment, divide the FINANCE CHARGE ADJUSTMENT by the number of payments to get the adjustment per payment.

For variable rate loans, if the rate change date has not yet occurred, the lump sum payment applicable to the entire rate change period may be calculated as of the date of adjustment (i.e., determine its present value for an APR adjustment and, if applicable, calculate the prorated share of the finance charge adjustment).

For single payment loans, adjust the payment or, if the payment has not yet been made, the creditor may calculate the adjustment as a lump sum payment as of the date of adjustment (i.e., its present value is determined).

OTHER VIOLATIONS

00000-0

Violations cited below are infrequent, sporadic or irregular deficiencies which neither individually or collectively represent serious concern for the financial institution but require corrective action where appropriate.

**IDENTIFICATION OF
TRANSACTION OR EVENT****SECTION AND DESCRIPTION OF VIOLATION****TRUTH IN LENDING**

Bade, Sue
85,000; 04-26-19xx

226.18(m)
Bank did not properly disclose an interest in property acquired with loan proceeds. Error was due to oversight. [085901]

Dean, Joseph
13,000; 03-10-19xx

226.25(a)
There was no evidence that the disclosures were maintained for two years after the date the disclosures were provided. This loan file was apparently mis-placed. [090901]

FAIR HOUSING

June 19xx, advertisement
The Anytown Sun

338.3(a)
This home improvement loan advertisement did not include the Equal Housing Lender Logo. Error was due to oversight. [352201]

FAIR CREDIT REPORTING

Phillips, Lee and Joyce
Denial; 08-10-19xx

615(a)
Applicants were not advised that information obtained from a credit report contributed to the denial. This exception appears to be attributable to an oversight. [111301]

Jelse, John
Denial; 07-17-19xx

615(a)
Applicant was not provided the name and address of the credit reporting agency used to obtain credit information. This exception appears attributable to an oversight. [111302]

ADVERTISEMENT OF MEMBERSHIP

August 19xx, advertisement
The Hispanic News

328.3
This advertisement soliciting deposits did not include "Member FDIC". The omission was due to oversight. [800301]

COMMUNITY REINVESTMENT

00000-0

(optional page)

COMPLIANCE - SUPERVISORY SECTION											
CERT NO.	0	0	0	0	0	-	0				
BANK NAME		Bank of Anytown									
CITY				Anytown			STATE		Anystate		
TOTAL ASSETS (000s)				84,400							
REGION		Any		FIELD OFFICE		Anytown		NO. OF OFFICES		2	
OFFICES EXAMINED		1									
CURRENT EXAMINATION DATE		07-01-XX		EXAMINATION STARTED TIME		DATE		8:30AM		07-01-XX	
EXAMINATION COMPLETED TIME		DATE		5:45		07-20-XX		LAST COMPLIANCE EXAMINATION DATE			
		03-13-XX									
RATINGS:											
CURRENT COMPLIANCE		3-4-3/3		LAST COMPLIANCE		3-3-3/3					
CURRENT CRA RATING				LAST CRA RATING							
Composite-Satisfactory*				3-2-2-2-2/2							
WORKING HOURS								GG	IN	OUT	TOTAL
EXAMINER-IN-CHARGE		Sharp, V. R.						14	87	70	157
OTHER EXAMINATION STAFF:		Young, C. M.						12	61		61
		Smart, A. D.						11	36		36
		New, D.						11	36	40	76
TOTAL HOURS								220	110	330	

* CRA Performance Levels are as follows:

Lending Test

- Loan-to-deposit ratio
- Assessment area(s) concentration
- Geographic distribution of loans
- Borrower's profile
- Response to CRA complaints

Satisfactory

- Meets standards
- Exceeds standards
- Meets standards
- Meets standards
- No complaints received

Investments and Services

N/A

President Rogers confirmed that the institution did not ask to be considered for an "Outstanding" CRA rating, therefore, investments and services were not reviewed. "Small Bank" CRA examination procedures were used.

Bank of Anytown is a subsidiary of Anytown Bank Corporation, Anytown, Anystate, a one-bank holding company.

President and Chief Executive Officer Patrick J. Rogers has been employed by the financial institution for 27 years and is responsible for managing its daily operations. President Rogers relies on Assistant Vice President and Compliance Officer Anthony Smith to ensure that the financial institution is in compliance with various consumer protection and fair lending laws and regulations and CRA.

**COMPLIANCE REPORT
(SUPERVISORY SECTION CONTINUED)**

00000-0

In addition to his responsibilities as Compliance Officer and CRA Officer, Mr. Smith serves as the Bank Secrecy Act (BSA) Officer, and Security Officer. Mr. Smith acknowledged that he does not have adequate time to handle his assigned responsibilities other than credit administration. Assistant Vice President Dorsey Moore is primarily responsible for compliance in the real estate lending area. Mr. Moore's experience with regulations relating to consumer real estate lending is limited. President Rogers agreed that the institution's efforts to establish proper compliance procedures for the lending area have been weak. He acknowledged that credit procedures should provide for an on-going review of the institution's compliance with consumer protection and civil rights laws and regulations.

The board of directors and senior management of the institution are not devoting sufficient time nor resources to the compliance program. Compliance Officer Smith's many other responsibilities prevent him from properly administering the compliance program. As a result of management's lack of progress in correcting and preventing repeat infractions, the board will be asked to sign a Memorandum of Understanding. The number, nature, and severity of violations cited this examination are indicative of an inadequate compliance program. The number and type of violations have increased since the last examination. Truth in Lending reimbursement violations are cited this examination affecting approximately 53 loans totaling \$10,725. Violations are primarily attributed to employees' lack of familiarity with consumer protection and fair lending laws and regulations, management's failure to implement adequate monitoring controls, and the board's failure to properly supervise the compliance program.

Based on the less than satisfactory compliance posture of the financial institution, a Memorandum of Understanding is recommended to ensure prompt corrective action and future compliance in the areas of consumer protection and fair lending.

With respect to the Truth in Lending reimbursable violations cited in this report, Compliance Officer Smith estimates that reimbursement arising out of this error will be approximately \$10,725. This estimate is based on the financial institution's file search and a calculation of restitution based on the amount of the credit life or credit disability insurance fee on unsecured consumer loans less than \$10,000.

The estimated total number of consumer loan accounts involved are as follows:

	Number/Amount
Outstanding	31 / \$ 6,225
Terminated	<u>22 / 4,500</u>
Total	53 / \$10,725

A civil money penalty of \$3,000 is recommended for the HMDA inaccuracies cited at this examination. The 19xx Loan Application Register had 63 entries, of which a total key column error rate of 20.8% was found. A separate memorandum has been prepared to the Regional Office in support of this recommendation for civil money penalties.

Another serious deficiency identified during the course of this examination was the institution's lack of compliance with federal flood insurance regulations. This deficiency has resulted in a lawsuit against the financial institution by a borrower, Maxwell Davis. Mr. Davis is seeking damages resulting from the 19xx destruction of his mobile home by flooding. Mr. Davis has alleged that the financial institution had the responsibility of determining and notifying him that his mobile home, the collateral securing his loan, was located in a flood hazard area. He further alleges that the institution had the obligation of requiring that he obtain flood insurance as a condition of receiving the loan.

Director Mickey Morton, who is also the institution's attorney, has assured the board that Mr. Davis' claims are unsupportable and that the institution has no liability. However, Director Morton's assurances may be without merit given the institution's failure to comply with the flood insurance regulations with respect to mobile homes located in trailer parks. In other jurisdictions, courts have found for borrowers in such situations.

**COMPLIANCE REPORT
(SUPERVISORY SECTION CONTINUED)**

00000-0

No consumer complaints were received since the prior examination.

The estimated total examination hours planned prior to the examination's start date was 240 hours. Approximately 60 additional hours were required to review identified problems with reporting home loan application information on the LAR.

Note for future examinations: This examination was conducted concurrently with a FDIC Safety and Soundness examination. During the management meeting, President Rogers indicated that the institution prefers concurrent examinations. The institution's main office has ample space to accommodate examination staff. Examination working hours were restricted from 8:30 A.M. to 5:45 P.M. by the institution. The Examiner-in-Charge should make arrangements with the institution for working hours at the start of the next examination.

Bank of Anytown offers no electronic banking services. Management is researching the feasibility of offering stored value cards to its customers.

A full review of the institution's compliance with fair lending was performed. After reviewing the HMDA LAR, a question was raised concerning application/denial rates for American Indians. To determine whether disparate treatment of American Indians occurred, a comparative loan file analysis was performed. The target group was American Indian applications and the control group was white applicants. A total of x files for the target group and 2x for the control group were reviewed. No evidence of disparate treatment was identified. The Mortgage Lending Decision Analysis (MLDA) worksheets are included in the workpaper files.

Community Contacts were conducted by the examining staff as follows:

Ms. Celia Jones
Urban Action Group
144 Penn Street
Anytown, Anystate 12345
123-456-7891

Roland Emke
City Planning Commission of Anytown
201 Main Street
Anytown, Anystate 12345
234-567-8912

Randal Bechard
Jonesborough Neighborhood Improvement Council
156 Old Market Street
Anytown, Anystate 12345
345-678-9871

Reverend Joseph Conners
Chairman of the Anytown Advancement Association
103 Richman Street
Anytown, Anystate 12345
987-876-9090

All interviewees expressed the general opinion that the financial institution is not a major player in the local credit market for small business and low- and moderate-income credit products.

FDIC 6410/11 (12-93)

A.3

FDIC COMPLIANCE DATA ENTRY FORM

The hard-copy Data Entry Form has been replaced by an automated Lotus form.

Access the Data Entry Form through the automated Compliance Report of Examination Menu. It is located under item 6, Upload Menu.

